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Procedia Economics and Finance 31 (2015) 269 – 279

**Procedia**  
Economics and Finance  
[www.elsevier.com/locate/procedia](http://www.elsevier.com/locate/procedia)

INTERNATIONAL ACCOUNTING AND BUSINESS CONFERENCE 2015, IABC 2015

## Student's Awareness and Knowledge on the Implementation of Goods and Services Tax (GST) in Malaysia

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### Abstract

There are various reactions, arguments and opinions among the society as a result of the government's plan in implementing the Goods and Services Tax (GST) from 1<sup>st</sup> April this year. Some of them gave positive responds and some others gave negative feedbacks as the implementation has resulted in higher prices for goods and services and thus this tax may cause burden to people. It may show that people are still blurred and did not understand what GST is. Therefore, this study was carried out to identify student's awareness and knowledge on the implementation of Goods and Service Tax (GST) in Malaysia. The objectives of this study are to identify the level of student's awareness on the implementation of GST and to identify the level of student's knowledge on issues of GST. The sample comprised of 250 students ranging from different years of study. The sample selection was made randomly. The method used in this study was quantitatively using questionnaires as the main instrument. A set of questionnaire which consists of four parts was designed to gain primary data from the respondents about the student's awareness and knowledge on the implementation of Goods and Service Tax (GST) in Malaysia. The data were collected and subsequently analyzed descriptively to obtain the frequency and percentage using the software Statistical Package for Social Science (SPSS) version 21.0 for windows.

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Peer-review under responsibility of Universiti Teknologi MARA Johor

**Keywords:** GST; tax; awareness and knowledge

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## 1. Introduction

Tax is a way of collecting revenue from individuals, companies or other entities by the government in order to finance state expenditure. It is considered as the most important sources of government's income to drive the economic growth and achieve the status of a developed country and high income. Thus, there are various taxes levied on the users such as direct taxes and indirect taxes. As tax contributes to the development of the country, low turnover tax revenues will affect the country's development and financial position of the country is likely to result in a deficit (Ahmad Azrin, 2015).

Taxes have a significant function in determining the direction of economic and social system of a country. Based on Malaysia's situation, contributions raised through the tax revenues have become an important factor as a percentage of the tax revenue of the government's total revenue is higher compared to other sources. Tax is a mandatory fee imposed by the government on the use, income, wealth or any other basis for the interest and benefit of the people of a country. It does not include fines or fees for specific purposes for individuals who pay for licenses, permits, tolls, entrance fees and special assessments. All information is paramount for young people especially for those who have high academic achievement. As the potential leader, they should be alert and concern with the matters that happen in Malaysia.

## 2. Literature Review

In Malaysian context, there are two types of taxes, namely direct taxes and indirect taxes. The role of direct tax collection is carried out by the Inland Revenue Board (IRB) and the Royal Malaysian Customs Department (KDM) accounts for collecting indirect taxes. Direct taxes, such as income tax, corporate tax, individual tax, and petroleum tax and stamp duty, are referred to taxes levied directly on individuals who must pay it compulsorily. The burden of paying direct taxes cannot be avoided or transferred to another person. Another kind of tax is indirect taxes which imposed tax indirectly. For example, tax which levied on alcohol, purchase taxes, and customs clearance of imported goods such as cars and electrical appliances. This tax is imposed on a person and this person can transfer the tax burden to other people. Such situations may occur, for example, when a businessman or trader acting transfers the tax burden of a product to consumers by raising the prices of certain goods. (Muhamad Khan, 2012).

Good and Services Tax (GST) is a tax that was newly introduced in Malaysia. Before implementing GST, Malaysian tax system was enforced through the Sales Tax Act 1972 (Act 64) and Tax Service 1975 (Act 151). These two legislations were under the control and supervision of Malaysian Customs (Nor Hafizah & Azleen 2013). The implementation of GST is not only to raise government's revenue but it also allows more revenue distribution to low-income earner, thereby making the gap of the economies smaller between the people (Abdul Aziz Awang, 2011).

### 2.1. Background of GST in Malaysia

The concept of Goods and Services Tax (GST) was first introduced by a French tax official in 1950's. To date, there are 160 countries in the world that have practiced this form of taxation including European Union and Asian countries like Sri Lanka, Singapore and China with the rate between 5%-27 % (Official Website Malaysia Goods and Services Tax, Royal Malaysian Customs Department).

The era of GST in Malaysia began during the announcement of Budget 2005 when the government proposed to introduce the GST effectively on Jan 1st, 2007 to replace Sales Tax and Services (SST). However, on February 22, 2006, the implementation of this new tax was deferred to give time for traders to make changes to their business processes, computing system and to provide training for staff. On 24 November 2009, the Prime Minister Dato' Seri Najib Bin Tun Razak has announced the GST to be implemented in the near future and then GST bill was tabled in Parliament in December 2009. The First Reading of the Bill was tabled on December 16, 2009 and it was scheduled for a Second Reading and Third Reading on 2010 but they were postponed for political and social reasons (Nor Hafizah, Azleen 2013). Finally, on 1st April 2015, the tax system has been successfully and fully implemented in Malaysia with a view to increase the amount of state tax revenue in addition to addressing the weaknesses of the former tax system, Sales and Services Tax (Official Website Malaysia Goods and Services Tax, Royal Malaysian Customs

Department).The first guideline of GST has been prepared by RMC (Royal Malaysian Custom) on 21<sup>st</sup> February 2014. The chronological era of GST implementation in Malaysia can be seen in Table 1.

Among the ASEAN countries, Indonesia is the first country to implement the GST in 1984 and followed by other countries. (Berita Harian, 2013). However, since 1st April 2015, Malaysia becomes the last country among ASEAN countries to fully implement GST except Brunei and Myanmar.The list of countries which have implemented GST/VAT is shown in Table 2.

Table 1: Background of GST Implementation in Malaysia

Year	Remarks
2005	First announcement of the proposed introduction of GST
22 February 2006	Deferred the implementation of GST
23 October 2009	The Government is at the final stage of completing the study on the implementation of GST
24 November 2009	Announcement of the GST Bill to be tabled for first reading
16 December 2009	First reading of the GST Bill
March 2010	Planned second reading of the GST Bill has been postponed until further notice
6 May 2010	Announcement that GST will be implemented after the <i>Price Control and Anti-Profiteering Act</i> is ready

Source: Official Website Malaysian Goods & Services Tax, Royal Malaysian Customs Department.

Table 2: List of Countries Implementing GST/VAT based on Regions

No	Region	No of Countries
1	ASEAN	7
2	ASIA	19
3	EUROPE	53
4	OCEANIA	7
5	AFRICA	44
6	SOUTH AMERICA	11
7	CARIBBEAN, CENTRAL AMERICA AND NORTH	19
	TOTAL	160

Source: Official Website Malaysian Goods & Services Tax, Royal Malaysian Customs Department.

GST in Malaysia initially was proposed by the Performance Management Delivery Unit (Pemandu) as one of the key initiatives under the Economic Transformation Programme (ETP) to address the balance of the revenue collection in Malaysia necessary to be a high-income nation by 2020.GST acts as a powerful means for the government to collect revenue and to reduce the fiscal deficit (The Edge, Oct 2013).Thisstatement is in line with the research conducted by SitiNorbaya, Dr HjAsry and Nor Haryanti (2014), the main objectives of GST are to generate more national revenue in order to cover the debt deficit.

## 2.2. General Concept of GST

GST is a broad-based consumption tax which covers all transactions including imported goods and services except for the goods and services that are classified as zero rated supply and exempt supply which will be exempted by the Government (Fatt. CK & Ling Lim, 2006). It means that the tax is charged on every supply of taxable goods and services at all levels in the supply chain in the process of production, manufacturing, wholesale and retail. The tax is paid by customers when they purchase goods and services (Alapatt, M and M. Shaik J. 2014).

Besides that, GST shall be levied and charged on the taxable supply of goods and services made in the course or furtherance of business in Malaysia by a taxable person. Moreover, GST is seen as a transformation of the tax system for restructuring the system to make it fairer, efficient and transparent. This nature of GST would help combat the tax leakages and non-compliance. It affects all consumers equally from every level of society regardless of where and how their income is derived. In other words, it affects consumers across the board including the poor and needy (The Edge, Oct 2013). The general concept of GST can be seen in Figure 1.

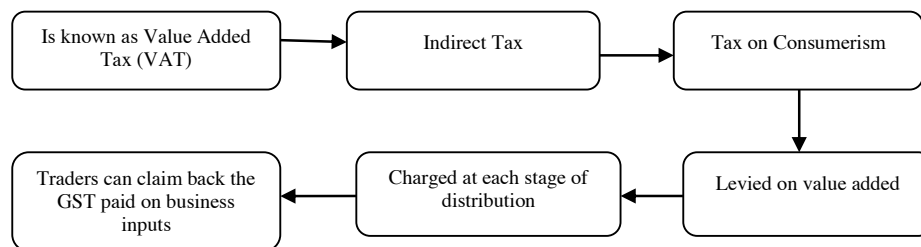


Figure 1: General Concept of GST

## 2.3. Mechanism GST / GST Rates

Malaysia will apply three categories of GST where each category differs primarily in the rates and the method of handling each tax. These are the three categories of GST namely Standard Rate, Zero Rate and Exempted GST Rate (Lim Kim Hua, 2013). Firstly, standard-rated supplies are goods and services which are charged with the standard rate at 6%. Businesses collect GST and pay to the government. They can be reimbursed credit on their inputs provided their tax on input is greater than the tax on output. Secondly, zero-rated supplies are taxable goods and services which are charged with the zero rate. Businesses can claim input tax credit when they bring in these supplies, which will then be charged at zero rate. Thirdly, exempt supplies are non-taxable supplies which are eligible for tax relief, meaning they will not be charged with any GST. Certain goods and services are exempted from GST such as basic food items for example rice, sugar, salt, flour, cooking oil, lentils, herbs and spices, salted fish; utilities such as piped water supply and 1st 200 units of electricity per month for domestic consumers; services provided by government; transportation services like bus, train, LRT, taxi, ferry, boat, highway toll; education; health services; sale, purchase and rental of residential properties and selected financial services. Naturally, businesses cannot claim input tax credit when they bring in these supplies. Besides, they are also not eligible to charge output tax to consumer (Lim Boon Poh, Teoh Wei Chien, Yap Wei Wah and Yong Kai Han, 2014). The list of GST rates can be seen in Table 3.

Table 3: List of GST Rates

N	Categories of Supply	Output Tax	Input Tax
1	Standard-rated Supplies	6%	Eligible to claim refund of GST
2	Zero-rated Supplies	0%	Eligible to claim refund of GST
3	Exempt Supplies	No GST	Not eligible to claim refund of GST

### 2.3. How GST Works

GST is collected and paid at all stages of the supply chain. All businesses pay GST when they buy supplies, assets or services for running their business. GST registrants will charge and collect GST on taxable goods and services that they provide (taxable supplies). The GST paid on their purchases (input tax credit) will be set off from the GST they charged and collected (output tax). If the output tax exceeds the input tax, the difference is to be remitted to the customs authorities. On the other hand, if output tax is less than the input tax, a refund will be given by the Customs authorities. The end consumer is borne to pay the ultimate GST (Debruyne J. 2013).

### 2.4. Why Malaysia applying GST

Mathew Alappatt 2014, states the reason why Malaysia adopts GST is because of Malaysia intends to reduce the independence on revenue from oil. The government believes that GST as a stable and sustainable source of revenue by widening the tax based. By increasing the revenue, the government may provide more socioeconomic programmes. However, public are facing another impact on family budget. Mathew Alappatt 2014 lists down the major concerns of public about GST.

- GST will increase the price of food, health care, medical product, public transport and other essential services.
- It will effect in the low income group. Hence, it may affect social problem.
- It is double taxation. Firstly, when income is earned and secondly when the income is spent.
- It may lead to inflation.

Lim K H, 2013 stated severalexternal macroeconomic and domestic factors why Malaysia adopt GST.

- Malaysia's fiscal budget has been in deficit continuously since 1998 and hence several international ratings agencies are concerned with Malaysia's mounting fiscal debt.
- Loose monetary policy adopted in the US since the financial crisis in 2008.
- The combination of the above two external factors will increase the cost of raising new finances, thereby negatively affecting Malaysia's economy and the sustainability of the current fiscal condition.

The implementation of GST in Malaysia is basically intended to achieve the five main objectives; first, to enhance tax compliance as well as to reduce tax evasion and tax avoidance; second, to enhance Malaysia's competitiveness and to improve efficiency; third, to avoid tax cascading, multiple taxation and transfer pricing bias; forth, to reduce the cost of doing business by providing tax credit on business input and lastly to implement self-policing, lessen the bureaucratic red tape and to lower the administrative costs (Nor Hafizah and Azleen, 2013).

The first outcome of the implementation of GST is to achieve higher tax revenue. This is because the tax base expanded to every level to make the system more effective and reduce leakages. Second, is to have high tax compliance among tax payers. By paying the tax, it will increase tax revenues to finance development projects and social. Last but not least, diversity of national revenue. It can reduce country dependence on petroleum revenue and income tax as sooner or later the sources will decrease (Yahaya, S.S 2013).

There are many other positive reasons why Malaysia needs to apply GST. The economics and the leaders believe that this is among the best way in order to achieve the better economic and social life. The government then has duty to take effort in explaining this new tax to make people understand and have a basic knowledge of GST, so they allay their fears and be ready to adopt it with an open mind set (HussinAbdullah.A.A, N.M 2013).

### 2.5. Comparison between GST & SST

GST differs quite substantially compared to the previous Sales and Services Tax. Table 4 below shows the differences between these two taxes.

Table 4: Comparison between GST &amp; SST

No	Goods and Services Tax	Sales and Services Tax
1	A broad-based consumption tax, based on a value-added concept.	Tax which is levied at only one stage of the supply chain.
2	A multi-stage tax payable by all the intermediaries in the production and distribution chain, with the tax burden ultimately borne by the consumer.	Tax borne by all businesses and individuals.
3	Service tax is imposed on services provided by a foreign service provider to Malaysian entities.	No service tax is imposed on services provided by a foreign service provider to Malaysian entities.
4	Transparent tax system	Non-transparent tax system
5	Standard rate = 6%	Sales tax = 10% Services tax = 6%
6	Start to implement on 1 April 2015 by the announcement of Budget 2014	Implemented since 1960 with a variety of improvements
7	The government is expected to collect tax revenue of RM27 billion a year	The government can only gain tax revenue of RM16 billion - RM18 billion a year.
8	All items will be taxed unless it is declared not taxed 40 items of consumer goods will not be subject to any tax at the same time it can help relieve the burden of household spending.	All items are not taxed unless declared taxable

Source: Official Website Malaysian Goods & Services Tax, Royal Malaysian Customs Department.

GST which is also known as Value Added Tax is a tax on final domestic consumption (Malaysia Goods and Services Tax (GST) Guide by Royal Malaysian Customs). GST is essentially a tax on consumption, and not production; hence, the tax burden ultimately falls on the consumers (Hanum H. 2014). Following the government's announcement to implement the GST, it has become a hot topic among the people even though they touted the success of the 160 countries that have implemented this tax system (K. Saira, M. A. Zariyawati & L. Yoke). This shows Malaysian citizens still blurred, confused and lack of knowledge with the implementation of this new tax scheme.

According to Nor Hafizah & Azleen 2013, this new tax scheme is needed not only to raise revenue but also to diversify sources of income. This statement is supported by (K. Saira, M. A. Zariyawati & L. Yoke) where GST acts to diversify government's income and to reduce federal government deficit. According to Gren 2001 GST is more sophisticated than the tax on retail sale. It is because even though GST is charged at each level of the supply chain, each business in the supply chain will charge tax only for the value he adds to the product in the supply chain. It will not become part of cost of the product as GST paid on business inputs is a tax credit claimable by registered businesses (Palil, M., & Ibrahim, M. 2013).

Sales and Services Tax (SST) contributes only 7.7 % of total revenue. Receipts from the SST depend on the strength of private consumption and business spending activities. The standard rates of SST are 10 % and 6 %, with different rates or exemptions for certain goods and services. The weaknesses of the SST include high incidence of tax avoidance, double taxation along the value-chain that pushes prices up, as well as extensive exemptions. This goes the same way in explaining the low collection of revenue from the SST (Lau Z Z, 2013).

In addition, the concept of awareness in citizens is important in order to increase awareness and having a fair understanding of the general knowledge of GST. Thus, by having knowledge, it may reduce the misconception and misunderstanding of this new tax scheme. Mohani, 2003 in an article of K. Saira, M.A Zariyawati & L. Yoke stated that knowledge is a fundamental element to increase public awareness. There was a study conducted in Hungarian that many citizen are not aware of the numerous kind of taxes levied on them. They have very limited knowledge on government true expenditure and the cost of public services provided by the state government. According to Nor Hafizah & Azleen 2013, graduates need to be prepared with sufficient and broaden knowledge in order to ensure the successful of GST's implementation. Students should not only understand the reason of this new tax but also to understand everything related to GST. Thus, education is the key point to succeed. Therefore, the government and the economics have big responsibility to make the people understand the concept of GST and so that the goal and mission of country can be manifested together.

### 3. Problem Statement

GST is deemed as one of the steps in making Malaysia as a country which has a high income tax system, comprehensive, efficient, transparent and business-friendly. It is also considered the world's best tax system based on the implementation of the country which has implemented the GST.

GST has just being applied in Malaysia. The government and its crew are still in their way to spread out the information of GST in order to combat confusion among people. Sales and contracts are made almost every day and some of these transactions required people to pay the GST. It is an issue if people are still unaware or confuse with the tax system of GST and become worst when people ignore and boycott not to pay the tax. This paper is focusing on the awareness and knowledge on GST among youngsters especially degree student in UiTM Johor. GST is a popular issue that is being discussed by people day to day, it is necessary to know whether the students are aware of the government's plan and do they have knowledge on this issue.

### 4. Research Objectives

In general, the study conducted on degree students in UiTM Johor aims to achieve the following objectives:

- i) to identify the level of student's awareness on the implementation of GST
- ii) to identify the level of student's knowledge on issues of GST

### 5. Research Methodology

For the purpose of this research, there were 250 degree students involved ranging from different years of study, different background, programme and age. Selection of respondents was made randomly. The method used in this study was quantitatively using questionnaire as the main instrument. A set of questionnaire which consists of four parts was designed to gain primary data from the respondents about the student's awareness and knowledge on the implementation of Goods and Service Tax (GST) in Malaysia. The data were collected and subsequently analyzed descriptively to obtain the frequency and percentage using the software Statistical Package for Social Science (SPSS) version 21.0 for Windows

### 6. Research Finding

#### 6.1. Demographic Analysis

The study was conducted at UiTM Johor involving undergraduate students. The result of the questionnaires received as in Table 5 showed that the respondents involved in this study consisted of male students (15.2%) and female students (84.8%). It clearly showed that the female students have dominated the overall number of students at the university. In terms of age, most of the respondents aged between 22 years and above (52.8%) followed by students aged 19 years old (33.6%), students aged 21 years old (11.2%) and students aged 20 years old (2.4%). The respondents came from various fields such as Accounting (54%), Finance (26.4%), Marketing (6%) and Islamic



Banking (13.6%). Whereas, for the semester of study, the respondents were from Semester 4 (49.2%), Semester 1 (36.4%), Semester 3 (8.8%) and Semester (24.4%).

Table 5: The Number of Male and Female Students

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	38	15.2	15.2	15.2
Valid Female	212	84.8	84.8	100.0
Total	250	100.0	100.0	

Moreover, in terms of family background, 81.6% of the respondents are from non-business and only 18% are from business background. 58% of the respondents came from town and 41.2% from village.

### 6.2. Analysis of Student's Awareness on the Implementation of GST

The first objective of this study is to identify the awareness of undergraduate students on the implementation of GST. Table 6 below shows that 90% of the respondents were aware of the implementation of GST April this year. However, only 10% of the respondents were not aware of this new implementation. This shows that the respondents did have their concerns of government's plan to implement GST. The results from the analysis displays 60.8% of the respondents knew about the implementation of the GST by having the information from media social, 20.4% from magazine and newspaper, 6.4% from peers and 2% from other sources. Therefore, media social plays a very significant role in delivering and conveying information to the public. In fact, UiTM Johor itself has organized a series of talks to convey information related to GST. The respondents (90%) also knew that GST will replace the current Sale and Service Tax (SST) and will not be implemented on all expenses.

Table 6: Student's Awareness on the Implementation of GST

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	225	90.0	90.0	90.0
Valid no	25	10.0	10.0	100.0
Total	250	100.0	100.0	

These 10% of the respondents who were not aware of GST is due to several reasons. The respondents stated that they are not interested to know about GST (5.2%), followed by 4.4% where they believed they are not effected directly, 2.8% for less of promotion and exposure and last but not least, they have no time to take cognizance of the matter.

### 6.3. Analysis of Student's Knowledge on the Issue of GST

The second objective of this study is to identify the student's knowledge on the issue of GST. The findings revealed in Table 7, 42.8% of the respondents were unsure whether GST is able to make the tax system to be more efficient, comprehensive and transparent, while 27.6% agreed and 12.4% strongly agreed with the statement. The study also found that 43.6% agreed on GST will generate and increase the revenue for the country and 12.4% respondents marked as strongly agreed to that statement. While 36.8% indicated their uncertainty, 4.4% disagreed with the statement, and only 2.8% strongly disagreed with the statement. This shows the respondent realized that tax is the major source of income for the government.



Table 7: Student's Knowledge on the Issue of GST

No	Item	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	GST aims to make the tax system more efficient, comprehensive and transparent.	8%	8.8%	42.8%	27.6%	12.4%
2	GST will generate and increase revenue for the country.	2.8%	4.4%	36.8%	43.6%	12.4%
3	GST can overcome the Sale and Services Tax which was introduced earlier.	4.4%	15.2%	40%	30.4%	9.2%
4	GST will not burden people.	16.4%	32.8%	28.8%	14%	8%
5	GST protects the interests of low income earners.	9.6%	24.8%	41.2%	16.8%	7.2%
6	Do not understand how GST would be implemented.	2.4%	7.2%	41.2%	32.4%	16%
7	GST will result in higher prices for goods and services.	4.8%	8.4%	33.6%	32%	21.2%
8	GST is the best tax system adopted by many countries around the world.	3.6%	14%	49.6%	21.2%	11.6%
9	No GST is imposed on exported goods and services.	6%	8.8%	61.6%	18%	5.6%

In relation to the third statement, 4.4% of the respondents strongly disagreed that the implementation of GST can overcome the Sale and Services Tax which was introduced earlier and 15.2% disagreed to the statement. This is then followed by 40% unsure, 30.4% agreed and 9.2% strongly agreed. Next, 16.4% strongly disagreed on statement that GST will not burden people, 32.8% disagreed, 28.8% unsure, 14% agreed and only 8% strongly agreed with it. The results show that majority of the respondents agreed GST will burden people. So 41.2% unsure GST may protect the the interests of low income earners.

In addition, the respondents were asked on another issue of GST whether they really do understand how GST is being implemented. 32.4% of the respondents agreed with this statement, 16% strongly agreed and 41.2 % of respondents are unsure of the statement. Other respondents indicated 2.4% strongly disagreed and 7.2% to disagree. One of the hot issues prior 1st April 2015 is GST will result in higher prices for goods and services. Based on the result, 4.8% of the respondents strongly disagreed and 8.4% disagreed. This is then followed by 33.6% unsure, 32% agreed and 21.2% strongly agreed.

The next statement, people were promised that the system implemented is the best because it has been implemented in 160 countries. The result displayed as in Table 3, 3.6% of the respondent's strongly disagreed and 14% disagreed. This is then followed by 49.6% unsure, 21.2% agreed and 11.6% strongly agreed. The majority of the respondents (61.6%) were also unsure if there is no GST being imposed on exported goods and services while 18% of respondents agreed, followed by 5.6% strongly agreed, 8.8% disagree and 6% strongly disagreed.

The overall findings show that even though the students were aware of the government's initiative to implement Goods and Services Tax(GST) but they still have limited knowledge in relation to this matter. This is because most of the respondents chose to answer unsure when they were asked question related to GST issue. It shows that the information provided by the government pertaining to GST is inadequate. Therefore, there is also a need for the government to give and provide a comprehensive understanding of relevant GST.

## 7. Recommendation & Conclusion

GST is one of the famous topics being discussed by Malaysian since the government's announcement to implement it April 2015. It is believed that the implementation of the new tax system, GST, is one of the measures to gain more revenues for the country. The more revenues gained by the government, the more benefits will be gained by nations. Thus in doing so, it needs the cooperation and commitment from all parties, academicians, professionals including the students as consumers. This is because by having clear understanding of this concept, it will give a good effect for a better government.

Students and young generation in fact, are elements or important assets in the country and will be a leader in the future. They will continue to implement the national development program to achieve Vision 2020. This group is one of the factors contributing to the progress and development of the country. Cooperation would be obtained if they are aware of and understand their responsibility. Providing adequate and relevant fundamental information is necessary to make them better understand the general principle of GST by organizing seminar, talk, training, course and forum in order to increase awareness and knowledge and also conform to regulation.

In the context of this tax system, the responsible party should pay attention and emphasis the public particularly the students to understand the innovations happening in the tax system. Therefore, some aspects need to be observed for example, definition of the terms used the scope of the GST's implementation, a specific list of goods and services that subject to tax and most important, they comply and adhere to the rule and regulation fairly and in transparent manner so that the end users are not burdened with the reforms made.

## Acknowledgements

First and foremost, we would like to thank Allah S.W.T for His blessings and giving us the ideas, strength and time in order to finish and complete this research paper. The success and final outcome required a lot of assistance and guidance from colleague. Deepest thanks to my co-writer Pn Alizah Ali and Pn Noraini Ismail for your patience, motivation, knowledge who provided insight and expertise that greatly assisted the research all along till the completion of this study.

We want to take this opportunity to express gratitude to our parents for the unceasing encouragement, support and attention. We would also like to express this grateful to our partner who supported us through this venture and the respondents for their time answering the questionnaire.

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